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The Borden Company

ESTABLISHED 1857

AND ALL SUBSIDIARY COMPANIES

ANNUAL REPORT

YEAR ENDED DECEMBER 31, 1936

NEW YORK



MARCH 1937

BOARDS

80 YEARS OF SERVICE

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THE BORDEN COMPANY

DIRECTORS

HOWARD BAYNE	MADISON H. LEWIS	THOMAS I. PARKINSON
L. MANUEL HENDLER	JOHN W. McCONNELL	BEVERLEY R. ROBINSON
ROBCLIFF V. JONES	ALBERT G. MILBANK	STANLEY M. ROSS
LESTER LE FEBER	ARTHUR W. MILBURN	GEORGE M. WAUGH, JR.
	MARCUS M. MUNSILL	

OFFICERS

ALBERT G. MILBANK, *Chairman Board of Directors*
ARTHUR W. MILBURN, *President*
PATRICK D. FOX, *Vice-President*
THEODORE G. MONTAGUE, *Vice-President*
RALPH D. WARD, *Vice-President*
GEORGE M. WAUGH, JR., *Vice-President*
EVERETT L. NOETZEL, *Treasurer*
WALTER H. REBMAN, *Secretary*
GEORGE BITTNER, *Assistant Treasurer*
HAROLD K. KRAMER, *Assistant Treasurer*
FREDERICK W. SCHWARZ, *Assistant Treasurer*
THEODORE D. WAIBEL, *Assistant Secretary*

(Edward B. Lewis, a Director and Vice-President, died September 20, 1936)

EXECUTIVE OFFICES

350 Madison Avenue, New York City

REGISTERED OFFICE

15 Exchange Place, Jersey City, N. J.

Transfer and Dividend Disbursing Agent

THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK

11 Broad Street, New York City

Registrar, BANKERS TRUST COMPANY, 16 Wall Street, New York City

Counsel, MILBANK, TWEED, HOPE & WEBB, 15 Broad Street, New York City

Auditors, HASKINS & SELLS, 22 East 40th Street, New York City

TO THE STOCKHOLDERS OF THE BORDEN COMPANY:

There are presented herewith Financial Statements, together with Accountants' Certificate of Messrs. Haskins & Sells, setting forth the Operating Results for 1936 and the condition of the Company at the close of that year.

The Balance Sheet continues to reflect the Company's strong financial position. Net Income of \$7,921,489.80 exceeded current dividend requirements by \$886,763.40, which excess was added to Earned Surplus. The new tax on undistributed profits was not operative owing to the fact that earnings in foreign jurisdictions not subject to this tax constitute by far the major portion of the excess of total earnings over dividends paid in 1936.

The total amount paid farmers for our purchases from them during the year was \$109,323,930.98.

Total wages and salaries paid to an average of about 29,500 employees was \$53,126,389.00.

Included in the above-mentioned figure is the aggregate of all salaries paid to the officers of the parent Company, which salaries were equal to about 1/66th of a cent per quart of milk handled in 1936.

Of the total net income earned, that realized from the sale of all fluid milk and all products derived from milk, but exclusive of non-milk products, was equivalent to about three mills, or less than 1/3rd of a cent per quart on the total amount of milk purchased and produced by this Company and all of its subsidiaries during the year.

A partial list of non-milk products includes None Such and other brands of mince meat, dried fruit juices, flavorings, eggs (shell, dried, and frozen), poultry, glues other than casein glue, beverages other than milk, miscellaneous produce items, and ice.

The curtailment of operations and change of policy affecting the Produce Division, as announced in last year's report, brought about greatly improved results in that division and all that was hoped for in 1936. For the five years prior thereto, Produce Division operated at a substantial loss. With curtailed operations, under changed policies, this division was able to show a small profit in 1936.

In the Fluid Milk Division, as a whole, some progress was experienced, although operations were complicated by governmental price fixing policies and drought conditions. Most markets experienced sales growth and some profit improvement. Sales comparison with 1935 in this division is adversely affected by the discontinuance of home service to many thousands on relief in various cities, which partially offset the gain of new customers. This discontinuance was largely the result of the substitution of cash and work relief for previously issued relief orders on food purveyors. When in possession of cash, the relief recipient made his own decision as to the nature of its expenditure.

Because the profit realized on the sale of a quart of fluid milk has received such wide and erroneous publicity, and because important facts in connection therewith are unknown or are generally misunderstood, the following details are presented for the stockholder's information. In the interest of simplicity, approximate round figures are used. However, they fairly present the situation.

On our sales of 781 million quarts of fluid milk, as such, (raw, pasteurized and certified of all grades) at retail and wholesale in all markets for the year 1936, we realized about 1/9th of a cent per quart or \$876,000. Out of every dollar we received in 1936 from the sale of such fluid milk, we paid 46 cents to the farmer and 30 cents to employees. The balance of 24 cents covered the cost of transportation of every type and nature, pasteurization, refrigeration, gasoline, glass and other containers, fuel, feed, taxes, insurance, depreciation, repairs and other similar items. What was left for the Company of this 24 cents after paying the above expenses, was a trifle less than one cent for each dollar of sales.

The Company is frequently referred to as a middleman, with an implication that its functions are unimportant and its profits excessive. Some agency must perform all of the functions just enumerated. None can be omitted. They form a necessary part of the chain from the time the cow yields her milk on a farm hundreds of miles from city markets until this perishable product is delivered at the door of the city consumer.

It is of special interest to our stockholders to note that these fluid milk profits represent only 11% of the net income of the Company for 1936. The remaining 89% was derived from over forty other milk and non-milk products, some of which are proprietary specialties, some of which are luxury or semi-luxury products, but none of which occupies the same place in the consuming public's mind as does fluid milk.

Were it not for constantly increasing efficiency and reduction of costs, the previously mentioned modest profit of 1/9th of a cent per quart in 1936 could not have been realized. There is continuous search for improvement in methods of distribution and steadily increasing efficiency may be expected. But without sacrificing the present-day safeguards, advantages and conveniences, anything like a drastic cut in the cost of milk distribution must await either a radical change in distribution methods or a growth in sales of such magnitude as would reduce unit costs by an amount sufficient to warrant reflection in selling prices. This latter is difficult of attainment wherever the fluid milk distributor is forced to operate under a system of state price fixing. Under such conditions, efforts to recognize the economics of a situation are complicated or thwarted while operating conditions continue to be competitive and subject to the play of economic forces.

When determining prices, as when determining other policies, Borden's is not unmindful of the fact that the safest and most lasting business, and the one most deserving public support, is that which gives the most in quality and service for the lowest price consistent with such quality and service, and which grows and prospers reasonably in so doing. To do otherwise would be to prove guilty of failure to recognize the principles upon which the greatest and best of modern businesses are founded.

Research activities were broadened and strengthened during the past year. Research expenditures exceeded those of any prior year, and the 1937 appropriation for this work has been further increased. Nutritional, new product, by-product and mechanical research are having increasing attention by a research staff of well trained and experienced men, which staff was augmented during the year. In addition to our own direct efforts, Borden's maintains a research fellowship at the Mellon Institute in Pittsburgh, Pennsylvania, and special university and hospital work is being conducted for us.

An outstanding recent research accomplishment has to do with Lactoflavin, the growth element in certain vitamins, for which Borden scientists were recently recognized by the American Medical Association. A large field of nutrition opens here. In the casein field, entirely new uses, for other than food purposes, have been successfully developed and further uses are being found. Certain heretofore waste by-products of milk have been found to have large commercial possibilities. Other new products have been and are being developed and old products are constantly being improved. New commercial fields are thus being opened. Commercialization has successfully started with some; others will follow.

Outstanding also from a public, but not a commercial point of view, was a Borden scientist's patent for the preservation of mothers' milk. This has been given to the public through the hospitals without cost to them.

Research has increased the usefulness and therefore the potentialities of Borden's, thereby broadening its horizon while sustained research efforts give promise of steadily widening its field of activities.

The Budget of Capital Expenditures for 1937, as approved by the Board of Directors, provides fully for replacements and, as in 1936, substantial provision was made for improvement of operating efficiency and for business expansion.

S a l e s

Sales for the year amounted to \$238,844,537.57 compared with \$229,888,089.16 for 1935. The 1936 figures reflect the very substantial decrease in sales of the produce division, which decrease was, as previously stated, the result of planned curtailment and changed policies. After due allowance is made for the effect of the foregoing, the sales tonnage increase for the year was 4.8%, and the sales value increase was 9.4%.

Every division of the business, except produce, enjoyed a sales volume increase. The increase by divisions, in order of accomplishment, was: first, ice cream; then cheese, fluid milk, and manufactured products, in the order named, in which divisions, as previously mentioned, a total of over forty milk and non-milk products were sold. Cheese and manufactured products divisions experienced new peak volumes.

Net Income and Earnings per Share

Net Income of \$7,921,489.80 is 3.3% of sales and \$1.80 per share on all of the capital stock outstanding December 31, 1936, which compares with 2.1% of sales and \$1.10 per share in 1935.

Taxes of every nature for the year 1936 amount to \$5,205,458.34 or \$1.18 per share of stock outstanding, which compares with \$4,282,329.39 and 97¢ per share of stock outstanding for the year 1935.

Net Working Capital

This item at the close of the year stood at \$42,183,233.99 compared with \$40,803,832.75 on December 31, 1935.

The ratio of Current Assets to Current Liabilities on December 31, 1936 was \$3.96 to \$1.00 which compares with the ratio of \$4.30 to \$1.00 on December 31, 1935.

Cash on hand at the end of the year was \$17,586,009.61, which was in excess of the total of all current liabilities of that date amounting to \$14,247,154.30. This cash compares with \$19,840,568.27 on December 31, 1935.

Frozen and restricted deposit funds, which funds were further reduced during the year, are not included in cash. Reserve provision is made for the estimated loss involved and the net balance is carried under Miscellaneous Assets.

Inventories of \$19,963,467.91 compare with \$15,260,039.21 on December 31, 1935. All inventory items are, as usual, valued at the lower of cost or market.

Marketable Securities, a substantial amount of which were United States Government securities, and including material holdings of Canadian Government securities, taken at their cost, amounted to \$5,926,916.18 and at their market value to \$6,308,765.95 on December 31, 1936. These compare with a cost of \$5,163,420.85 and a market value of \$5,484,389.48 on December 31, 1935 for securities then owned.

Collections showed further improvement but are not yet normal. All credit losses have been charged off and adequate reserves against future losses have been created by charges to operations, leaving Receivables in sound condition.

Capital Stock

There was no change in either the authorized or outstanding number of shares of Capital Stock during the year.

The Capital Structure continues without any outstanding securities senior to the Common Stock of The Borden Company.

The stock outstanding December 31, 1936 was held by 42,480 stockholders, with an average holding of 104 shares, which compares with 40,601 stockholders with an average holding of 108 shares on December 31, 1935.

Respectfully submitted,

ARTHUR W. MILBURN

President

THE BORDEN COMPANY *and*
CONSOLIDATED BALANCE

A S S E T S

CURRENT ASSETS:

Cash	\$ 17,586,009.61	
Marketable Securities—At Cost	5,926,916.18	
(Market Value \$6,308,765.95)		
Receivables (<i>Including salary advances to employees of \$52,873.25</i>) — Less Reserve for Doubtful Accounts of \$1,849,484.77	12,953,994.59	
Inventories—At the Lower of Cost or Market:		
Finished Goods	\$13,005,470.54	
Materials and Supplies	6,957,997.37	19,963,467.91
		\$ 56,430,388.29

MORTGAGES, OTHER RECEIVABLES, and MISCELLANEOUS ASSETS, less Reserves	1,474,038.59
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PROPERTY, PLANT AND EQUIPMENT (Principally at cost, but in part at lower valuations established by the Company)	\$103,006,631.67
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Less Reserves for Depreciation based on above property valuations	37,629,006.25	65,377,625.42
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PREPAID ITEMS, ETC.	612,043.17
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TRADE-MARKS, PATENTS AND GOOD-WILL	1.00
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TOTAL	<u>\$123,894,096.47</u>
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NOTATION: *The above balance sheet does not contain any salvage values which may be ultimately realized from properties, now owned and not essential to operations, which have been written off against Capital Surplus.*

all SUBSIDIARY COMPANIES
SHEET, DECEMBER 31, 1936

LIABILITIES

CURRENT LIABILITIES:

Accounts Payable	\$ 9,550,809.65	
Accrued Accounts:		
Taxes (<i>Including Income Taxes—Estimated</i>)	2,625,914.16	
Other Items	2,070,430.49	\$ 14,247,154.30

DEFERRED INCOME AND NON-CURRENT LIABILITIES 500,528.59

RESERVES:

Contingency Reserve	\$ 2,664,009.48	
Insurance and Other Operating Reserves	5,607,317.36	8,271,326.84

CAPITAL STOCK—THE BORDEN COMPANY:

Common \$15.00 par (Authorized 8,000,000 shares)		
Issued	4,417,958 shares	
Less Treasury Stock	21,254 "	
Outstanding	4,396,704 "	65,950,560.00

SURPLUS:

Capital Surplus	\$ 13,756,076.72	
Earned Surplus	21,168,450.02	34,924,526.74
TOTAL		<u>\$123,894,096.47</u>

THE BORDEN COMPANY *and*
 STATEMENT OF CONSOLIDATED NET INCOME
 For the Year Ended December 31, 1936

NET SALES		\$238,844,537.57
COST OF SALES AND EXPENSES:		
(Including provision for depreciation in the amount of \$6,344,633.12, insurance, taxes, and all manufacturing, selling, delivery, administrative and general expenses, after deducting miscellaneous operating income)		
		229,578,496.02
NET OPERATING PROFIT	\$	9,266,041.55
OTHER INCOME (Less Charges for Interest)		453,967.07
TOTAL	\$	9,720,008.62
DEDUCT:		
Federal and Other Income Taxes—(Estimated)	\$	1,702,483.40
Maintenance expenditures on properties not essential to operations and written off against Capital Surplus (Less rentals of \$197,211.62 received therefrom)	96,035.42	1,798,518.82
NET INCOME FOR THE YEAR	\$	7,921,489.80

all SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED EARNED SURPLUS

For the Year Ended December 31, 1936

BALANCE, JANUARY 1, 1936	\$ 20,281,686.62
NET INCOME FOR THE YEAR	7,921,489.80
TOTAL	\$ 28,203,176.42
DIVIDENDS PAID DURING THE YEAR	7,034,726.40
BALANCE, DECEMBER 31, 1936	\$ 21,168,450.02

STATEMENT OF CONSOLIDATED CAPITAL SURPLUS

For the Year Ended December 31, 1936

BALANCE, JANUARY 1, 1936	\$ 13,581,199.40
CREDITS—Salvage values realized from disposals of unserviceable properties, and fair operating values ascribed to other such properties adapted to some operating use	991,091.54
TOTAL	\$ 14,572,290.94
CHARGES — Write-Off of Unserviceable Properties and Excess Values by which Operating Properties have been adjusted, after application of reserves	816,214.22
BALANCE, DECEMBER 31, 1936	\$ 13,756,076.72

ACCOUNTANTS' CERTIFICATE

THE BORDEN COMPANY:

We have made an examination of the consolidated balance sheet of THE BORDEN COMPANY and its subsidiary companies as of December 31, 1936, and of the related statements of consolidated net income, earned surplus, and capital surplus for the year 1936. In connection therewith, we made a review of the accounting methods, examined or tested accounting records of the companies and other supporting evidence in a manner and to the extent which we considered appropriate in view of the system of internal accounting control, and made a general review of the operating and income accounts for the year. The inventory records were reviewed by us and appear to be correct, and in substantiation of inventory quantities we have accepted certificates from officials of the companies.

Legal actions in which Mills Novelty Co., the plaintiff, seeks judgments for material amounts from the Company and certain of its subsidiaries, and a large number of other defendants, are pending in the Federal Courts of California and New York, a similar suit in the Federal Court of Illinois having been withdrawn by, and court costs therein assessed against, the plaintiff. The Company's counsel believe the suits to be without merit as against the Company and its subsidiaries.

In our opinion, subject to the foregoing, the accompanying consolidated balance sheet, with notation thereon, and related statements of consolidated net income, earned surplus, and capital surplus of The Borden Company and its subsidiary companies, fairly present, in accordance with accepted principles of accounting consistently followed by the companies, their financial condition at December 31, 1936, and the results of their operations for the year.

HASKINS & SELLS.

New York, February 23, 1937

CORPORATE ORGANIZATION AND BUSINESS

As advised in last year's report, early in 1936 all but a comparatively few of the subsidiary companies in the United States were merged into The Borden Company which now, through product and territorial divisions thereof, conducts substantially all of the following described business in the United States and in Export Markets. The remaining domestic and export business is carried on by a comparatively few subsidiaries. The Canadian subsidiaries operate the business in the Dominion as heretofore.

The Borden Company (a New Jersey Corporation) owns 100% of the stock of all its subsidiaries including Borden's Ltd, which in turn owns 100% of the stock of its Canadian subsidiaries.

The business falls into four general divisions, as follows:

MANUFACTURED PRODUCTS. Manufacture and sale since 1857 of Eagle Brand as well as other brands of condensed milk; also evaporated, malted and dry milk; casein products, caramels, mince meat, dried fruit juices, etc.

Business of the above nature is conducted throughout the United States, Canada and in Export Markets.

FLUID MILK. Purchase and distribution by a system of route deliveries of milk, cream, butter, eggs, etc. in the following States and Canadian Provinces:

Arizona	Illinois	Michigan	Ohio	Ontario
California	Indiana	Missouri	Pennsylvania	Quebec
Connecticut	Kansas	New Jersey	Texas	
Florida	Massachusetts	New York	Wisconsin	

ICE CREAM. Manufacture and sale of ice cream and allied products in the following States and Canadian Provinces:

California	Iowa	Missouri	Pennsylvania	Ontario
Connecticut	Kentucky	Nebraska	Texas	Quebec
Delaware	Maryland	New Jersey	West Virginia	
Illinois	Massachusetts	New York	Wisconsin	
Indiana	Michigan	Ohio		

CHEESE AND PRODUCE. Manufacture and sale of package, loaf, bulk and fancy cheeses; also purchase, production and sale of farm produce (butter, eggs, etc.) as a source of supply for our own route distribution, and at wholesale.

Business of the above nature is conducted throughout the United States, Canada and in certain Export Markets.

